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UNITED COOPERATIVE FARMERS, INC.

A Study In Economic Integration

by John M. Bailey
and Russell C. Engberg

General Report 45
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FARMER COOPERATIVE SERVICE U. S. DEPARTMENT OF AGRICULTURE

FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON 25, D. C.

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The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, and membership.

The Service publishes the results of the studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

Contents

	Page
Highlights	iii
General operations	2
Importance in area	3
Finance	3
Volume	3
Integrated operations	4
Feed services	4
Egg services	5
Poultry services	6
Processing	6
Broilers	7
Contract provisions	7
Operational aspects	9
Other services	9
Refunds on feed purchases	9
Future plans and possibilities	10
Experience with integration	11
Adequate net worth	11
Competent management	11
Adequate volume of business	11
Efficient operations	12
Informed membership	12
Sound credit policies	13
Risk protection	13

Highlights

United Cooperative Farmers, Inc., of Fitchburg, Mass., is an example of what cooperatives are doing through integration to strengthen the economic position of farmers.

Farmer Cooperative Service, U. S. Department of Agriculture, with Farm Credit Administration selected this association for study to provide growth, financial management, and operational data that would assist these agencies in their work with farmer cooperatives.

Beginning in 1928 by marketing blueberries and purchasing feed, United Cooperative Farmers (UCF) has developed feed, egg, poultry, broiler and farm supply services to a total volume of over $9 million in 1957. Its 4,000 patrons have assets in their cooperative of nearly $1.3 million -- 85 percent of this net worth.

The bulk of UCF's volume is in the Fitchburg area. This association handles over two-thirds of the feed and poultry volume of the area.

Feed services include storage, mixing, and bulk delivery. In 1957 United Cooperative Farmers distributed 51,000 tons of feed. It delivered in bulk about 75 percent of the feed it sold in the Fitchburg area.

The cooperative picked up, graded, and marketed eggs from about 200 producers, with a volume of about 100,000 cases in 1957. It had a quality program underway but had no contracts with egg producers.

The poultry processing services were developed originally to return a higher price for hens removed from laying flocks. Poultry volume increased from less than 200,000 pounds in 1937 to a peak of 14 million pounds in 1957. The bulk of this volume since 1950 has come from broiler processing.

Broiler contracts with 35 growers provide 350,000 broilers growing the year round. Contracts provide a guaranteed minimum floor price. Before 1956 UCF bought broilers from farmers or feed dealers to add volume to the processing plant. To assure a more steady volume, about 50 percent of the broilers were produced under contract in 1957.

As feed purchases represent about half of total volume, the association bases practically all patronage refunds on them.

Additional marketing services are needed and planned. These will call for emphasis on trade names and direct selling to retailers.

The quality egg program and increased marketing services may call for additional egg production. This could lead to egg production contracts with farmers to insure uniform production through the year.

The expansion of UCF business operations by either horizontal or vertical integration or both has been successfully achieved by adherence to certain basic business fundamentals. They include:

1. Adequate net worth.
2. Competent management
3. Adequate volume of business
4. Efficient operations
5. Informed membership
6. Sound credit policy
7. Risk protection

HOW UNITED COOPERATIVE FARMERS, INC., PROVIDED INTEGRATED SERVICES FOR 4,000 NEW ENGLAND PATRONS IN 1957

U.C.F. with assets of $1.3 million and 208 employees provided these services:	Laying flocks	Broilers	Dairy and other livestock	Field crops, fruits and vegetables
Farm management				
One poultry specialist	Advised 200 producers on feed, sanitation and quality programs	Supervised contracts with 35 growers	None	None
Feed				
Total: 51,000 tons mixed by one mill -- 41% delivered in bulk by 5 trucks; 59% in sacks by 8 trucks. 4 retail warehouses operated, 3 local co-ops served	Sold farmers 40,800 tons	Sold 6,400 tons. Financed contract growers with feed and medicines; average capital of $80,000 to $100,000 used for feed[1]	Sold farmers 3,800 tons	None
Farm supplies				
Total volume: $280,430 4 retail stores operated 1 service station and garage	Sold farmers general supplies[2]	Sold farmers general supplies[2]	Sold farmers fertilizer and general supplies[2]	Sold farmers fertilizer, seeds, and general supplies[2]
Processing				
One poultry processing plant. One egg candling and storage facility	Processed 4.8 million lbs. of fowl, live weight. Candled and cartoned 30,000 cases or 30% of eggs sold	Processed 9.6 million lbs., live weight. 51% contracted	None	None
Marketing				
Egg and poultry marketing services; 17 pickup and delivery trucks.	Sold $1 million of dressed fowl. Sold total of 101,000 cases of eggs for $1.3 million	Sold dressed broilers for $2.2 million	None	Trucked blueberries to wholesale markets

[1]Arranged with hatcheries to finance chicks which required $40,000 to $50,000 of capital.
[2]Included poultry and dairy equipment, building materials, petroleum products, tires, batteries, and accessories.

United Cooperative Farmers, Inc.

A Study In Economic Integration

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Rapidly changing technology in agriculture has had a great impact on production, processing, marketing, financing, risk sharing and efficiency of operations. People engaged in agriculture cannot insulate themselves from the many facets of this new technology.

Most farmers realize the importance of adjusting to the changes involved. In many instances they are using their cooperatives to help them make the adjustments effectively.

In coping with the changing technology, cooperatives are now giving considerable attention to economic integration. Integration describes the process of bringing together and performing economic functions under centralized control. It usually requires additional capital and highly skilled management.

When units performing similar functions are combined, the action is known as horizontal integration. When additional steps in production, marketing, and purchasing are performed, the action is considered vertical integration.

Current emphasis on integration comes from its implication of farmers through contracts and supervisory activities at the farm level. Increasingly, production on the farm is being meshed with marketing and purchasing programs.

To assist cooperatives in integration, Farmer Cooperative Service and Farm Credit Administration have jointly undertaken an analysis of the programs of cooperatives that have successfully integrated agricultural activities for their farmer patrons. FCS is interested because of its research, advisory service and educational functions in all phases of agricultural cooperation, with special emphasis on new activities, consolidation and management. FCA is concerned because of the increased financial requirements in integrated operations.

The cooperative and integrated activities of United Cooperative Farmers, Mass., (UCF), of Fitchburg, are an example of progress in adding and improving services. This report describes these activities and their development. Such information should be helpful to other association interested in providing more services or extending present ones.

General Operations

United Cooperative Farmers is a federation of 10 local associations. It has wholesale facilities for distributing feed, general farm supplies and other items and has three retail branch stores. The local associations own the common stock in UCF and send voting delegates who elect directors to UCF on the basis of local membership. Patrons within a 30-mile radius are served mostly from the Fitchburg facilities.

From blueberries to broilers describes the cooperative activities of these farmers in Massachusetts, Connecticut, New Hampshire, and Maine. Organized in 1928 to market blueberries, this association has developed over the years until today it operates:

1. A modern feed mill at Fitchburg that produces a complete line of poultry and dairy feeds.

2. A modern poultry dressing plant at Leominster that provides poultry marketing services for producers throughout central New England.

3. An egg marketing service at Fitchburg that provides year-round similar marketing services for egg producers. This department also performs market trucking services for blueberries and other farm products from the Fitchburg area to Boston.

4. Feed and farm supply stores at Fitchburg; Rockland, Maine; and Danielson and Moosup, Conn.

5. A garage and service station at Fitchburg.

6. And, most recently, a broiler contract program with farmers in the Fitchburg area.

In order of development, berries and feed were handled in 1928; eggs in 1931;

United Cooperative Farmers began contracting for broilers in 1956. These broilers are ready to market.

poultry marketing in 1935 and processing in 1944; and contract broilers in 1956. Patrons now number about 4,000.

Importance in Area

Income from poultry and poultry products represented about 36 percent of total cash receipts in 1954 in Massachusetts. For the counties of Middlesex and Worcester, income from poultry and poultry products was about 28 percent of total products sold in the same year.

While UCF operates in five States, the bulk of its operations are in the counties of Middlesex and Worcester in Massachusetts. In 1955, 60 percent of UCF's feed volume was in these two counties.

In 1955 UCF handled about 38 percent of the dollar volume of poultry and poultry products in the two counties. For the same year, approximately 32 percent of the feed purchased for livestock and poultry in the two counties was distributed by UCF.

Finance

An important factor in business success is adequate finance. Finance is particularly important in an operation like UCF where activities are necessarily linked with large investments in fixed assets and inventories. This high overhead calls for considerable volume to minimize fixed unit costs.

Assets have grown from $1,392 in 1928 to $1,272,615. Membership equity has risen from a beginning of $1,392 to $1,082,320 in 1957. As of December 31, 1957, net worth was 85 percent of total assets (table 1). Total savings during the life of UCF have been about $1.7 million.

That net savings over the life of the association are greater than total assets is significant. Member equity has been near or above 80 percent of the assets most of the time.

High member equity is maintained by a 5-year revolving fund and a permanent reserve. Bylaws provide 25 percent of net savings each year for the permanent reserve on an allocated basis until it equals the common and preferred stock issues.

Borrowed funds have been obtained from the Springfield Bank for Cooperatives and local banks for both expansion and operating needs. As of December 31, 1957, UCF had no outstanding loans or mortgages.

Volume

A second essential to business success is volume. The growth in volume

Table 1. - *Financial data at 5-year intervals for United Cooperative Farmers, Inc.*

Year	Assets	Member equity	Member equity as a proportion of total assets	Net savings
			Percent	
1932	$12,603	$10,195	81	$1,760
1937	46,630	38,366	82	3,827
1942	152,440	137,957	90	69,058
1947	446,621	301,336	67	98,425
1952	1,129,712	888,832	79	75,239
1957	1,272,615	1,082,320	85	152,242

Table 2. - *Volume data at 5-year intervals for United Cooperative Farmers, Inc.*

Year	Total	Eggs marketed	Poultry marketed	Patrons' purchases
1932	$141,028	$15,214		$125,814
1937	553,119	139,558	$37,070	376,491
1942	2,660,445	476,172	124,951	2,059,332
1947	4,370,487	1,023,552	241,418	3,105,516
1952	5,982,678	1,229,279	562,240	4,191,159
1957	9,071,540	1,396,009	3,224,721	4,450,810

has paralleled that of finance. Volume has increased until it exceeded $9 million in 1957 (table 2).

Before 1952, patrons' purchases, mostly feed, represented at least two-thirds of total volume. In the last 5 years poultry volume has increased considerably, due principally to broiler operations. Marketing now is more than half of total volume.

Integrated Operations

The development of UCF has centered around the poultry industry. Beginning with feed, it has added services until many phases of poultry operations -- production, processing and marketing -- are all or partly performed by the association. A review of the scope of these services and some details of development will help appraise its integrated activities.

Feed Services

Soon after organization the association took orders for a carload of feed. Each member of the board of directors borrowed $100 at the local credit union to make the necessary payment for this feed. It purchased ready mixed feeds in carload lots until 1937, when two small feed mixers were obtained.

By 1939 the feed volume had increased so much that construction was begun on a new mill and elevator. This new construction, finished in 1940, provided facilities to carry the expanding UCF volume during the war years. It had a capacity for storage of about 15,000 bushels. By 1950 the mill had been further remodeled at a cost of $300,000, bringing storage capacity to 35,000 bushels, mixing capacity to 15 to 20 tons an hour, and facilities available for a more complete line of feeds.

In 1952 bulk feed delivery service was inaugurated at Fitchburg. In early 1958 four 8-ton trucks and one 12-ton truck were in operation to handle this service.

In 1957 UCF delivered 41 percent of its total feed volume with five trucks. The other 59 percent was delivered in sacks by eight trucks. Bulk deliveries were about 63 percent of the feed it sold in the Fitchburg area compared to 52 percent in 1956.

During the week of February 17-21, 1958, it delivered feed to 27 broiler patrons and 132 other patrons. During the same week another 132 patrons picked up feed at retail, making a total of 291 feed patrons. They purchased a total of 574 tons of feed, about 90 percent

of it delivered by UCF trucks. Twenty-seven broiler and 31 egg producers took 80 percent of the feed delivered. These 58 largest feed purchasers, or 20 percent of total, accounted for 72 percent of the feed purchased at Fitchburg that week.

Feed tonnage handled by UCF exceeded 50,000 tons in 1957. Patrons with laying flocks purchased approximately 80 percent of the feed; broiler growers, 13 percent; and dairy and other farmers, the balance. Feed was distributed through 4 retail warehouses and at wholesale to 3 local cooperatives.

A new feed facility at Rockland, Maine, for handling bulk feeds was being completed as this report was written. One bulk truck and one combination bulk and sack truck were in operation. Its feeds will be manufactured in Fitchburg, and shipped in carload lots under milling in transit privileges and delivered by both sack and bulk trucks to patrons. Carload shipments of sacked feed are now being shipped from Fitchburg to the two branches in Connecticut. It is anticipated that before long bulk facilities will also be established for Connecticut farmers. One combination bulk and sack truck and three sack trucks are operating there.

UCF gave patrons quantity and cash discounts. Delivery charges were 10 cents a bag for 1 to 99 bags, 5 cents a bag for 100 bags and over, while for 6 tons and over no charge was made.

A weekly listing of prices showed "no delivery charge on bulk shipments" and bulk discounts of:

$3 a ton for loads under 4 tons
$4 a ton for 4 tons and over
$5 a ton for a capacity load of 6 tons and over

UCF gave discounts of $1 a ton or 5 cents per hundredweight on manufactured feeds if paid for within 10 days, provided there was no previous balance on account.

UCF manufactures a full line of poultry and dairy feeds. This is one of the trucks it uses for bulk delivery service, begun in 1952.

Egg Services

The marketing program for eggs began in 1931. From less than 3,000 cases in 1937, volume increased to 60,000 in 1944, and reached a volume of 125,000 cases in 1956. The volume of eggs declined in 1957 because the pickup service in Connecticut was discontinued. The egg volume of UCF is about 20 percent of the two-county volume. Up to 200 farms now market eggs through UCF. The majority of the flocks have from 2,500 to 3,000 layers although several flocks were in the 7,000 to 10,000 layer size. The cooperative does not supervise laying flocks and it has no grower marketing contracts for eggs or poultry at the present time.

The marketing and processing service includes trucking eggs from the farm to the plant at Fitchburg, candling and

The cooperative candles and cartons about a third of the eggs it handles. The rest of the eggs are sold in loose case lots.

repacking some, and selling to retailers and jobbers. In the spring about 50 percent of the eggs are candled and cartoned compared with 20 percent in the flush fall season; thus the average is about 30 percent. The rest are in loose case lots. Eggs packed in dozen cartons go into retailers' or jobbers' cartons. UCF cartons are branded only "Farm Fresh" with no identification by a UCF trade-mark.

Association trucks take uncandled eggs from the farmer to markets in Boston. A quality program is in operation and grading the eggs by size is done at the farm. Eighty-one percent of all eggs shipped to UCF are now Grade A. These eggs now bring 1 to 3 cents premium on the Boston market. Only brown eggs are handled.

Poultry Services

With poultry being an important part of agriculture in the UCF area, the services performed by UCF are predominately those that relate to poultry. In addition to feed and egg programs, processing and broiler growing activities have been developed.

Processing

To aid in the disposal of laying flocks and to assure better prices, the cooperative began live marketing of fowl for its patrons in 1935. Poultry processing was started on a small scale in 1944 and by 1957 volume reached a peak of 14 million pounds.

Not all of this volume came from the flocks of patrons of UCF. In order to obtain maximum efficiency of plant operations, the association has purchased fowl and broilers on the open market to reduce the unit cost of operation. The original plant at Fitchburg had become inadequate by 1948 and by 1952 facilities obtained at Leominster were ready for operation. At that time volume was only 1.8 million pounds, but by 1954 it was up to 9.5 million pounds and jumped to 13.5 million in 1955.

The big increase in poultry processing in the early 1950's came from broilers produced in the area. Broiler processing expanded until approximately two-thirds of the total processing volume was from broilers in 1957. The processing plant at Leominster is the only one in the immediate area.

Approximately 70 percent of all the fowl and 80 to 90 percent of all broilers in the immediate area are handled at the UCF processing plant.

This gives UCF a considerable marketing responsibility. Marketing has been done by a sales manager who operates without facilities on any of the markets. Jobbers, locally and in Boston

and Providence, buy outright and resell to chain or other retail outlets. Both Troy and Albany, New York, are important outlets for UCF poultry, handled also on a jobber basis.

The plant capacity is around 3,500 birds per hour. Operation is curtailed in the wintertime because of the pattern of laying hen sales, and because broiler production is a bit lighter during the winter. Efforts are made to buy additional broilers and fowl on the open market.

The association handles from 30,000 to 35,000 broilers a week from its own growers, another 5,000 to 6,000 a week from two feed companies under contract, and another 20,000 to 25,000 birds a week from other sources. Under the contract with the two feed companies the association shares in their losses and profits. These are based on the growers' performance.

The feed company guarantees one-half cent per bird per week to the grower. Any gain or loss is distributed under contract -- one-third to the hatchery, one-third to the feed company, and the other one-third to the processing plant of UCF.

The broilers bought from other feed dealers and hatcheries have no contract provisions and are purchased on a competitive basis. The Urner-Barry quotation is the basis for price quotations for open-market purchases, and usually is about 5 to 6 cents a pound below the New York quotation for New York dressed birds.

Broilers

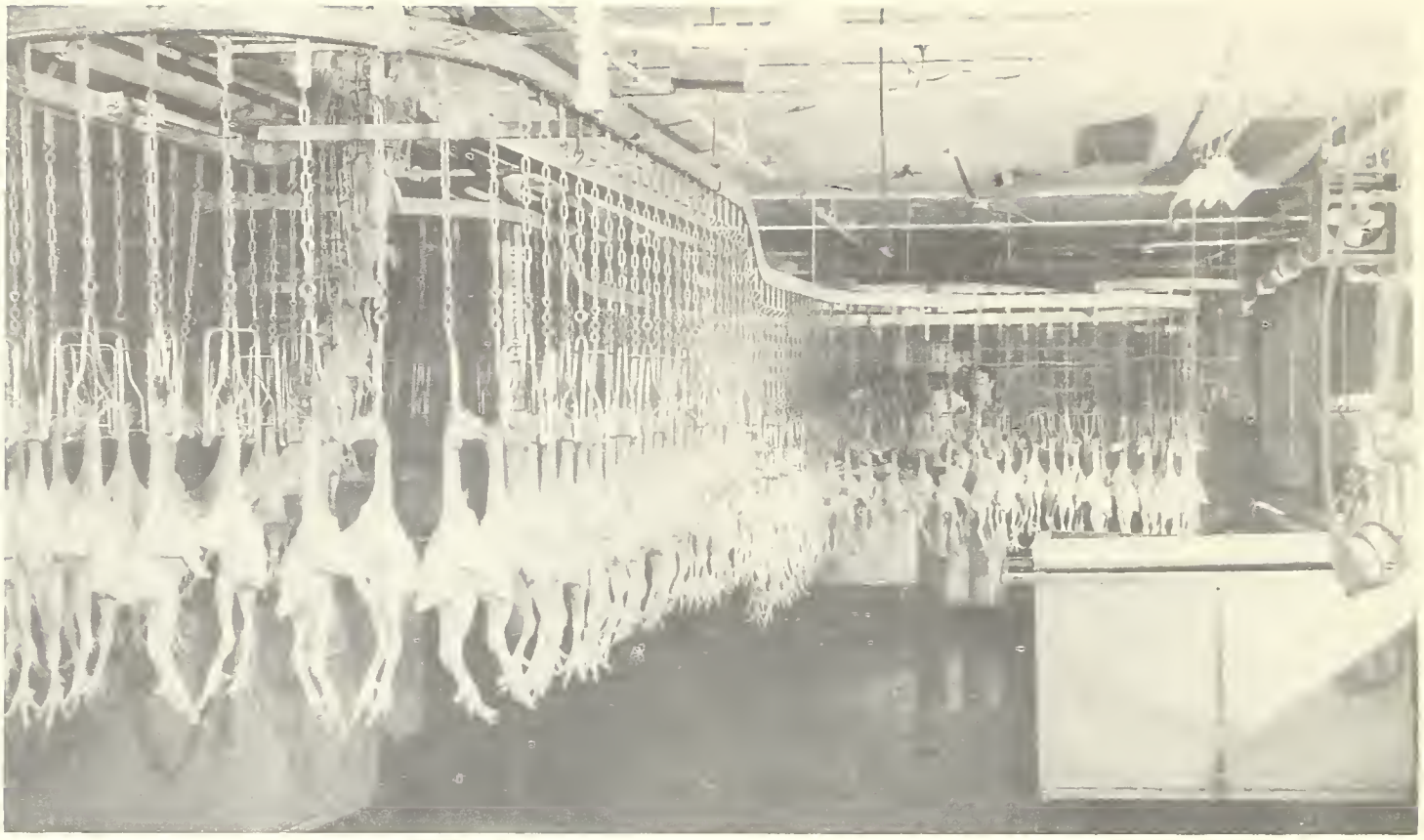
UCF's acquaintance with broilers dates back to 1948. At that time feed dealers sponsored the first broiler production and UCF processed the output as an adjunct to its other fowl processing operations. The need for additional volume was especially noticeable in 1952 when the new plant at Leominster began operation, but by 1956 UCF could see the necessity of an assured volume of broilers throughout the year for efficient operation of its processing plant. With this in mind it made contracts with existing broiler growers under such favorable terms that it was able to get considerable volume within its own program.

The original contracts used in 1956 paid the grower 1 cent per bird per week. This proved unsatisfactory. In the first place, it cost the association 21.5 cents a pound to produce; and second, it provided no incentive for the farmer to achieve a good feed conversion because he was paid on the number of birds sold.

The original contract, therefore, was changed April 15, 1957, to offer a guarantee of 19.5 cents a pound with any overage above the 19.5 cents to be given entirely to the farmers. Thus, UCF was assuring the farmer a minimum of 19.5 cents plus all profits above that figure. In February 1958, broiler producers with the cooperative were receiving 21.5 cents a pound. Costs of production -- on a breakeven basis -- not including labor, fuel, litter and electricity were estimated at 17.5 cents a pound, thus earning the growers 4.5 cents a pound.

Contract Provisions. - UCF holds title to baby chicks and furnishes and delivers to the farmer all feeds, grit, sanitation supplies and medications required to properly raise the chicks into healthy marketable poultry. The hatchery furnishes the chicks and receives payment at the time the broilers are marketed.

UCF also agrees to provide the farmer general instructions for raising the chickens. This program is carried out by a broiler supervisor, a man trained in poultry production who checks flocks at least once a week. In addition,



Poultry processing plant at Leominster, Mass. In 1957 broilers accounted for about two-thirds of the total processing volume at the co-op.

the feed sales manager and poultry buyer assist in the supervision. UCF also agrees to remove the chickens from the farm to the processing plant between 63 and 72 days after the chicks have been placed on the farm.

The farmer agrees to accept and keep possession of the flock; to disinfect premises and buildings; to provide fuel, electric power, and labor; to sign delivery receipts for all feeds and other materials; to use all feeds and other materials for producing the chicks supplied and owned by UCF; and to return all feed and other materials on hand at the time the chickens are removed from the farm.

The price paid the farmer is based on a schedule derived from Urner-Barry price and New York weight quotations. The farmer at all times is called an independent contractor. All margins originating from raising such chickens go to the farmer within 7 days from the time the chickens are received in UCF's processing plant.

Cost for computing margins is defined as: (1) gross amount charged UCF by the hatchery for the baby chicks; (2) one cent a chick to cover insurance, disease, bookkeeping and administrative costs; (3) UCF's cost at the time of delivery for all things furnished the farmer for raising chickens.

The term "profit" is defined as "(1) the amount by which the higher of the actual sales value of the flock, or (2) the guaranteed sales value of the flock exceeds the cost of the flock."

The hatchery agrees, under the definition of costs and profits, to assume up to one-fourth of any losses which might be sustained on any given flock. Another 25 percent of any loss is to be assumed by UCF's poultry processing plant, with the feed mill accounting for the remaining half of the losses.

Operational Aspects. - Originally, some egg producers were skeptical about the profitability of the broiler venture and felt that feed users other than broiler patrons might be called upon to sacrifice some of their feed savings. Therefore, UCF took certain precautions against such a possibility. One action was to increase the gross margin on broiler feeds. This served as a cushion or reserve in offsetting possible losses from broiler operations.

In addition to this higher gross margin, broiler patrons were not permitted to share in any patronage refunds on their purchases of feed. Their entire concern was to attain a good feed conversion under the terms of their broiler contract. The patronage refund on other feeds for 1957 was about $2.50 a ton.

UCF's 1957 experience indicates that an additional margin of 3 to 5 percent on broiler feeds is necessary to cover possible losses from price fluctuations of broilers. This would be above the usual mark-up on broiler and other feeds.

Egg producers in 1957 benefited two ways because broiler contracts were in operation. In the first place, the additional volume at the feed mill reduced the cost of feed processing per ton. Second, the volume of broilers under contract reduced the cost of operating the processing plant and added to the returns on fowls sold by the egg producers.

One other cost to the association on the broiler contracts not reflected in feed costs is that of interest on the inventory of feed and other supplies furnished the broiler farmer. For 1957, capital used by UCF for broiler feed and medications credit amounted to between $80,000 and $100,000 over the entire year. The amount used by hatcheries for chicks ranged between $40,000, and $50,000.

UCF has about 350,000 broilers growing the year round with 35 growers under contract. Producers feed out 4 lots each year, growing out a lot in 10 weeks and allowing 2 weeks for sanitation measures. At least 10,000 broilers are considered necessary for an economic unit.

Broilers are marketed at weights of from 3.5 to 4 pounds. These weights bring a higher price a pound than southern broilers marketed at about 3 pounds.

Other Services

Farm supply stores are maintained by UCF at Fitchburg and three branch locations. Poultry equipment and supplies make up a large part of the farm supply volume with building materials and hardware items next in importance.

A service station at Fitchburg is available for use of patrons. However, its most important function is to maintain the 34 trucks and automobiles operated by UCF in its feed, egg, and poultry activities.

UCF also uses its egg trucks for transporting blueberries to wholesale markets. One truck load is moved each night during the peak season.

Refunds on Feed Purchases

Another feature of the integrated program in UCF is that of making most of its patronage refunds on the basis of feed purchases. UCF does all other services about at cost. Variations from cost are borne by the feed mill. If the egg department operates at a loss over a year, the patron has received higher prices for eggs and the higher egg prices are reflected in lower feed refunds. Because the bulk of patrons produce eggs, no serious problem of equity should arise.

Farm supply store at Fitchburg, Mass. Other farm supply stores are located at Rockland, Maine, and Danielson and Moosup, Conn.

The same situation exists on returns from processing or farm supply operations. Frictions of an equity nature can be minimized by close control in each service to assure an operation near to cost.

Future Plans and Possibilities

A recognized weak spot in UCF operations is in the selling end of both poultry and egg services. Development of producer-controlled marketing services to points nearer the consumer are under consideration. These plans include emphasis on trade names and performance of jobber and wholesale operations.

As these opportunities are developed, a larger volume of eggs should be anticipated. This should reduce unit operating costs and improve the income status of patrons by increasing the size of existing flocks or by new laying enterprises. This in turn would add volume in both feed and processing operations. The effect that a change in one activity of an integrated operation has on the entire business points up the dynamics of integration. It emphasizes the cause and effect relationship and indicates the need for long range planning.

To date, management has felt that the hatcheries used by the association and its patrons adequately met their needs. In view of the potential advantages in controlling quality of chicks especially for broilers, management may need to watch developments continuously in order to determine whether ownership of a hatchery will be necessary to maintain the competitive status of UCF and to keep up adequate service to its patrons.

Experience With Integration

Increasing numbers of cooperatives face decisions on whether to expand their services through integration -- either horizontal or vertical or both. The persistence of expansion in most lines of agricultural production and marketing over a long period suggests that this trend is not likely to be reversed.

Some observations based on the experience of UCF in adjusting to this trend, therefore, may help cooperatives considering such activities.

The success of an integrated operation is governed by the same basic principles that apply to any business performing supply, marketing or other services. These principles are intensified and become more important, however, when applied to a cooperative. This is true because as a cooperative further integrates its operations, it provides new and more complex services for its members and they assume greater obligations.

Experience at UCF has shown certain fundamental requirements in successfully integrating services. These are adequate net worth, competent management, adequate volume of business, efficient operations, informed membership, sound credit policy and risk protection. Brief comments on each follow.

Adequate Net Worth

From the beginning UCF followed a policy of building up its net worth. On December 31, 1957, its total capital and equities of $1,082,320 constituted 85 percent of the combined liabilities and equities. This comparatively strong net worth position has been important in enabling UCF to obtain credit needed to finance current operations and expand. Thus, it has followed the firmly established principle that no business organization of any kind, cooperative or otherwise, should undertake an expansion or consolidation program without providing an adequate capital structure.

Competent Management

UCF has been able to do a successful job of adapting itself to current developments, in part because both the manager and his staff, as well as the board of directors, have paid close attention to problems of the association. Again it has followed the basic business principle -- that as competition increases and technology advances, an alert and aggressive management is a prerequisite to a business that desires to move ahead.

Adequate Volume of Business

UCF started with a federation of four local cooperatives. The number has since increased to 10 locals. It has added a number of integrated services as already described.

Through these steps and through membership growth, the total volume of sales has increased steadily from $20,868 in 1929, its first year of operation, to $1,016,804 in 1940, $5,575,268 in 1950, and $9,071,540 in 1957. This growth has been important in bringing operations of its feed mill, its poultry processing plant and its egg marketing to a competitive level as far as cost per unit is concerned. The additional volume, moreover, has given it added bargaining power in both buying and selling.

Thus UCF experience illustrates how cooperatives and other business concerns may achieve greater size by horizontal mergers, vertical integration, and general growth of patronage. This is in line with the trend of farms and

Picking up eggs at the farm for delivery to Boston markets. Eggs at the farm are graded by size but not candled.

business and manufacturing concerns of all kinds to steadily become larger in order to gain the economic advantages of larger scale operation.

Efficient Operations

Improvements in operations at UCF are evidence of its realization of the value of efficiency. Examples of more efficient operations are bulk delivery of feed; efficiency improvements going on at the feed mill such as bulk feed bins for 320 tons, new pellet machines, new mixers, new transformers, better grain unloading, and the like; quality program for eggs; and recent processing plant alterations.

To a considerable extent efficiency of operation is a byproduct of competent management and adequate size operations. Modern methods and equipment, careful planning to keep waste at a minimum, and avoiding lost motion also contribute to efficient operations. To achieve still more efficient operations, UCF and other cooperatives may also need to give more attention to pricing policies that reflect variations in the cost of serving large and small producers.

Informed Membership

UCF has a successful membership program. It works with patrons through publications, study, recreation, and advisory groups. Experience here has shown that as cooperative operations expand, member understanding and support become imperative. The member must be "in the know" to appraise the recommendations and decisions of management. He must realize and be prepared to meet his responsibility of providing additional finances.

UCF and other cooperatives increasingly need to make available to patrons the latest in research and events to obtain support for operations and proposals. For a quality program cannot succeed without adherence to specified practices. Production goals for output and plant efficiency require compliance with designated schedules. In adhering more closely, even by contract at times, to prescribed production schedules of the cooperative, members necessarily relinquish making some economic decisions in exchange for greater economic benefits.

Finally, the patron must increasingly view his cooperative as an extension of his farming operation. His awareness of its value to him and his importance to it must be sharpened.

Sound Credit Policies

The experience of UCF indicates that cooperatives to an increasing extent are being called on to finance supplies to patrons. Furthermore, when production contracts such as those developed by UCF are entered into with growers, a new type of financing is required, as well as an increase in the amounts needed. Thus, it is highly important for any cooperative faced with broadening its credit service to work out credit policies and arrangements that are both sound and well adapted to its particular situation.

Although UCF credit policies were not studied in detail, no serious difficulty with that part of its operation was indicated. It financed credit to patrons by carrying these accounts itself. This procedure was necessary for broiler growers under contract. Title to the chicks was not transferred to the grower. Therefore, advances for feed and medication represented an investment or an expense by UCF instead of a credit sale to the grower.

The experience of UCF and others indicate that a cooperative furnishing credit to patrons should recognize this as a separate service and give it as much skilled attention as any other enterprise. Credit services should be administered by a separate department with a competent manager in charge. When handled in this manner, a cooperative can usually finance its members with no greater risk than that taken by specialized lenders.

Risk Protection

When cooperatives enter into agreements with farmers such as the contracts between UCF and the broiler producers, some of the immediate market risk is shifted from each patron to the cooperative.

Under the UCF arrangement, the hatchery bears a part of the risk of loss. But a substantial part is carried by those creating the risk since they pay higher broiler feed prices and do not share in patronage refunds on broiler feed.

The contracting cooperative guarantees a price or some minimum rate of return to the patron and thus takes over the risk of selling the broilers, or whatever the product may be, for enough to cover this guarantee and the cooperative investment in the product. There are countless variations in the form of this contract with equally numerous differences in the degree with which the risk is shifted or divided between the grower and the contractor.

The UCF experience suggest that the contract should provide some sort of incentive to the grower for efficient management and give him some benefit also from favorable prices in the market. It suggests also that the minimum price guaranteed to the grower must be based on the market outlook. While high enough to meet the local competitive situation it must not, at the same time, be so high that substantial losses regularly occur.

Such decisions call for a good understanding of market conditions and sound business judgment by management. Taking market risks is a new function or service for many cooperatives. But there is no reason why a cooperative cannot perform this service more effectively than the farmer as an individual and as well as any other business firm.

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